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The Gazette
BUSINESS
TECHNOLOGY
•SECTION D
Horoscope D4
Trading Highlights D6
BUSINESS EDITOR: DAVID YATES (514) 987-2512
WEDNESDAY, OCTOBER 18, 2000

HOW THEY CLOSED

TSE	10,132.56	–360.47
CDNX	3275.82	–46.79
DOW	10,089.71	–149.09
NASDAQ	3213.96	–76.32
GOLD (N.Y.)	$271.10	–$0.40
DOLLAR	65.80	–0.05
PRIME RATE	7.50	UNCH

See World Markets on Page D6

Capital gain for the Chagnons?

Mini-budget timing appears perfect for wealthy Montreal family

PAUL DELEAN
The Gazette

For Montreal's wealthy Chagnon family, the timing would seem impeccable for a cut in the capital-gains tax, which the federal government is widely rumoured to be planning in a mini-budget today.

The $5.4-billion deal to sell their cable-and-TV company, **Groupe Vidéotron Ltée**, to **Quebecor Media Inc.**, closes tomorrow at 12:01 a.m.

If the Finance Department declares today to be the effective date of a new, reduced capital-gains inclusion rate of 50 per cent (down from 66.66 per cent) – and it indicated this week some of the mini-budget measures could take effect the same day – the Chagnons could be spared tens of millions of dollars in federal taxes, and many millions more in provincial taxes if Quebec ultimately decides to follow suit and harmonize its capital-gains rules.

The Chagnons might also be going a different route.

When the Vidéotron takeover was confirmed last month, Quebecor chairman Pierre-Karl Péladeau mentioned that the Chagnon family was looking to establish a charitable foundation. Reportedly, they wanted the deal structured in such a way as to offer maximum benefit to the foundation.

The foundation apparently has been created, with Louise Perras as president and general manager. But attempts yesterday to get other details about La Fondation Lucie et André Chagnon were unsuccessful. Vidéotron chairman André Chagnon wasn't available and Perras didn't return a phone call.

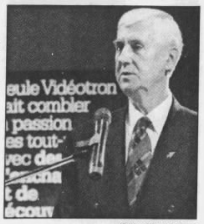
Under Canadian tax rules, contributions of stock to charity receive favourable tax treatment. Donors get a tax receipt for the market value of the donation, and report any capital gains on it at a reduced inclusion rate of 33.33 per cent. (That also could drop to 25 per cent tomorrow if tied to the expected new rate).

The Chagnon family owns 40,785,356 multiple-voting shares and 96,780 subordinate-voting shares of Vidéotron, and has pledged them all under the Quebecor offer.

At the tendered price of $45 a share, the family's holding is worth about $1.8 billion.

Their base cost is private, so it's not clear what their net gain will be. But the company – founded by André Chagnon in 1964 and now headed by his son, Claude – first went public in 1985 at $7.75 a share.

Even before the Quebecor deal, André Chagnon was one of the wealthiest people in the nation – 19th over-all, with a personal fortune estimated at about $400 million, according to a 1996 Financial Post Magazine story.



JOHN MAHONEY, GAZETTE
Vidéotron patriarch André Chagnon in '95.

Jitec given green light for trading

DON MACDONALD
The Gazette

Trading in Jitec Inc. was halted for a second full day yesterday before the company issued two press releases in the late afternoon.

The Montreal Exchange ordered the trading halt Monday and requested that Jitec, a Nuns' Island high-tech company, clarify previous announcements of business deals.

"We are now satisfied with their disclosure," said Louis Doyle, head of the equity division at the ME, after the release of Jitec's statements. "We are going to reinstate trading (this) morning at the opening."

Jitec designs and markets network-computing equipment to businesses, consisting of stripped-down terminals that are connected to powerful off-site servers.

The Quebec Securities Commission is investigating the possibility that Jitec stock trading has been manipulated.

The commission is examining unusual trading patterns since the company's stock began trading July 26.

In the longer of the two press releases yesterday, Jitec gave more details of a $105-million deal with **Canada Payphone Corp.** of Burnaby, B.C.

The two companies originally signed a letter of intent on Aug. 4. A Jitec spokesman said yesterday that the companies have now inked a final contract.

Under the deal, Canada Payphone agrees to promote and distribute 45,000 of Jitec's computer terminals to major hotels "on a best-efforts basis" over 30 months, yesterday's statement said.

MARKETING STARTS IN DECEMBER

"Once the deployment is complete, if all the contract terms are met, the agreement will generate revenues of $105 million to Jitec Inc.," the release states, adding that Canada Payphone will begin its marketing efforts in December.

In its original Aug. 8 press release describing the deal, Jitec said it had "concluded an agreement for the implementation of 45,000 terminals."

Westmount millionaire Herbert Black, who has been critical of Jitec's original Canada Payphone release, said yesterday's statement vindicates his position.

"It's very important that Jitec shareholders should realize when there is or isn't a contract," said Black, president of scrap-metal dealer **American Iron & Metal Co.** "And I appreciate the fact that the Montreal Exchange forced Jitec and Canada Payphone to confirm what the real deal is."

But Black added he still considers the deal to be simply an open-ended marketing agreement. "I challenge whether they will be even able to do 1,000 units, let alone 45,000," Black said.

"They have an agreement to try to put stuff in (hotels). There are no minimums. That's not a contract."

Black maintains he became involved with Jitec last month when he was considering investing in the company. He says he backed away when he became dissatisfied with what he saw of the company, including its press releases.

Please see **JITEC**, Page D4

ANDRÉ PICHETTE, GAZETTE
Tony Mastronardi (left) and Guy Nathan of TouchTunes Digital Jukebox pose with MP3 jukebox at their office on Nuns' Island.

MP3 jukeboxes aim for a hit

Canadian debut in sight, says Nuns' Island firm behind technology

ALISON MacGREGOR
The Gazette

TouchTunes Digital Jukebox Corp. is using MP3 technology to download and play digital music – with the blessing of most major record labels.

In the mid-1990s, the Nuns' Island-based firm developed a technology to download music from a central server using the MP3 format and play songs on a network of digital jukeboxes with touch-sensitive interactive screens.

After signing licensing agreements with major music companies, including **Capitol Records Inc.**, **BMG**, **Universal** and **Warner**, to use digitized copies of their music, TouchTunes brought audiophile favourite **Bose Corp.** on board to design and manufacture its jukeboxes. The machines are made in Saint-Marie-de-Beauce.

"We went straight to the top," said TouchTunes Digital president and chief executive Tony Mastronardi. "This is the best-sounding jukebox on the planet."

Dubbed "Genesis," the first machine was installed in a bar in September 1998. Today, the firm said it has 2,500 jukeboxes across the United States playing 1.2 million songs a week.

Mastronardi said the company is negotiating with record labels for Canadian rights to their music and expects to deploy a fleet of jukeboxes here in the next six months. The company is also negotiating digital-music rights for Britain.

Targeted at habitual jukebox venues – billiard halls, bars and pubs – Mastronardi said Genesis's interactive screen and high-quality sound system are attracting new customers, like upscale cigar lounges.

"Jukebox is still kind of a derogatory term," he said. "People think of it as an old scratchy vinyl thing from the 1950s."

As well, TouchTunes has inked an advertising deal with **United Distillers & Vintners** of Britain. Once a customer has paid for a song, a game or puzzle pops up on the screen promoting one of the company's spirits, like Malibu Rum. If the customer wins the game, he or she is credited with an extra song.

Mark Quigley, a technology analyst at the Yankee Group Canada in Brockville, Ont., said the interactive features of the system can entice customers to spend more time at a particular venue.

TouchTunes was founded at the end of 1998 by Mastronardi and senior vice-president Guy Nathan, a Parisian who was a technology adviser to French president Jacques Chirac when he was mayor of Paris in the early 1990s.

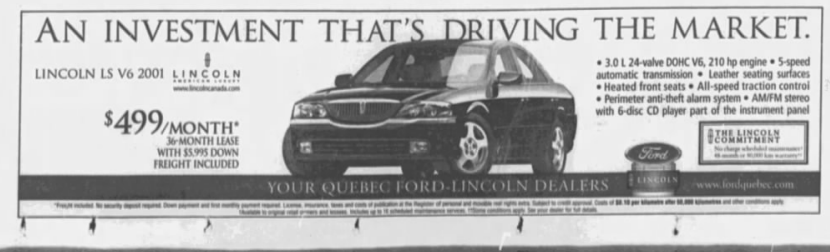
For the first three years, Mastronardi and Nathan invested their personal money and funds from investors, raising about $3.3 million between 1998 and 1997. Patent and entertainment lawyers offered services in return for a piece of equity.

In March 1997, the company received $3 million U.S. in venture-capital funds from the **Société Financière d'Innovation** (Sofinov), a subsidiary of the **Caisse de Dépôt et Placement du Québec**, and the **Société Innovatech du Grand Montréal**.

To date, TouchTunes has received a total of $43.6 million in investments, most of which has come from Innovatech and Caisse subsidiaries Sofinov and **Capital Communications CDPQ**.

In 1994, the company did a reverse takeover of Las Vegas-based **Technical Maintenance Corp.** to get an over-the-counter listing on the Nasdaq exchange. The firm was renamed **TouchTunes Music Corp.**, while TouchTunes Digital of Nuns' Island became a wholly owned subsidiary of the U.S. company.

Please see **MP3**, Page D4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BRIEFS

BAE wins order from Air France

BAE Systems Canada Inc. has received an order from **Air France Group** for its multi-purpose control display unit for retrofit on B747-200 aircraft. Terms weren't disclosed.

The company said its CMA-2014 unit will be installed on seven B747-200 aircraft to provide a cockpit-control and display function for the Airborne Communications and Reporting System, that Air France is adding to the aircraft.

BAE said the installations are being engineered by **Air France Industrie**. BAE makes high-tech electronic products for the aviation, communications, infrared-sensing, marine-electronics, positioning and space markets.

GTC pulls offering

GTC Transcontinental Group Ltd., one of Canada's largest printing and publishing companies, has withdrawn plans to raise money through a special share offering. Money from the share offering would have been used to give the company more financial flexibility to make acquisitions.

GTC also said when the stock offering was announced Sept. 28 that the money would be used to reduce bank debt. The same day the company said a syndicate of 11 banks had agreed to increase long-term credit to about $460 million from $175 million.

GTC chairman Rémi Marcoux said yesterday that the new issue of Class A shares is no longer a good option for the company. "We remain confident in the future prospects of the corporation and our growth strategy is unchanged," Marcoux said.

GTC, Canada's second-largest commercial printer, also is the largest publisher of consumer magazines.

Richelieu purchases

Richelieu Hardware Ltd. has completed the acquisition of the principal assets of **Reliable Fasteners** of Montreal, as well as all the shares of **Les Boiseries Lussier** et **Fils** of Quebec City, for about $10 million.

Richelieu, a specialty hardware distributor, expects the acquisitions to add annual sales of more than $15 million. The company also expects the acquisitions to "make a solid contribution" to its earnings. Richelieu said it will finance the transactions with cash flow from operations.

Separately, Richelieu said it is currently witnessing its strongest internal growth ever – 19 per cent since the beginning of the fiscal year – mainly because of the ongoing launch of new products and a buoyant economy.

Les Boiseries Lussier distributes decorative moldings and appliques for furniture and kitchen cabinets. Reliable Fasteners imports and distributes screws and related products for hardware retailers and manufacturers.

Both companies' teams are joining Richelieu's work force.

Trading stopped

The Quebec Securities Commission has issued an order prohibiting all registered trading in the securities of **Orient Resources Inc.** The Montreal Exchange said the company failed to comply with information requirements of the Securities Act.

The QSC also issued an order prohibiting trading in securities of **Datalex Corp.** for the same reason.

As well, trading in shares of **Robex Resources Inc.** on the Montreal Exchange has been halted because the company failed to file its financial statements for the quarter ended June 30 with the QSC. The company said its failure to file "is attributable to a technical error."

Industrial Life buys

Industrial-Alliance Life Insurance Co. signed an agreement in principle to acquire all of **Les Mutuelles du Mans** of France's shares in **Unindal Inc.**, making Industrial-Alliance the sole owner of Unindal. Industrial-Alliance and Mutuelles du Mans currently own equal shares in Unindal, a portfolio company that owns **Industrial Alliance Auto & Home Insurance.** Terms weren't disclosed.

Industrial-Alliance said the agreement, subject to regulatory approval, ends a 10-year partnership between Industrial-Alliance and Mutuelles du Mans. The two companies had combined under a single portfolio company their own general-insurance companies, including Industrial Alliance Auto & Home for Industrial-Alliance, and the **Canadian Union Insurance Co.** for Mutuelles du Mans. The Canadian Union was sold last year, marking the first step in Unindal's restructuring.

Canada 3000 route

OTTAWA – **Canada 3000 Airlines** of Toronto received federal approval yesterday to offer flights to New Delhi. India's capital will be the 95th city served by the airline.

Under federal rules, the airline has one year to develop a service to the city or risk losing the rights to another airline. Transport Canada said. **Air Canada** and **Canada World Airways** had also applied for the route.

DOW JONES, CP

Dia Met goes on the block

Part-owner of Canada's first diamond mine recruits bank to seek bids

Canadian Press

VANCOUVER – Diamond industry giants such as **De Beers** and **BHP** are expected to circle around a part-owner of Canada's first diamond mine, which put itself up for sale yesterday.

Vancouver-based **Dia Met Minerals Ltd.** said it has hired an investment bank to seek bids after two large shareholders – including a woman who received her shares in a divorce settlement with the firm's founder – said they're ready to sell their combined 38-per-cent stake.

Dia Met officials would not name those shareholders, but a source close to the company identified them as Marlete Fipke and David MacKenzie.

Fipke received her shares in a February divorce settlement with Dia Met founder Chuck Fipke, who discovered the Ekati deposit in the Northwest Territories about a decade ago. The share transfer gave her a 21-per-cent stake worth about $125 million at the time.

MacKenzie is a Dia Met director who has been involved in the company since its early days.

Faced with the possibility of a major shareholder selling a large portion of shares at an undervalued price, the board of directors put the whole company on the block to ensure competitive bids, said Gerald Prosalendis, Dia Met's vice-president (corporate development).

Dia Met's Class A shares, worth $19.95 each at the time of the Fipkes' divorce settlement in late February, jumped $5.45 to $22.50 on the Toronto Stock Exchange after yesterday's announcement. They closed at $21.50.

"We were proactive here," Prosalendis said. "It was in the interest of all shareholders of Dia Met for the board of directors to set the stage for a full and open bidding process."

Last month, the company reported earnings of more than $21 million in the six months ended July 31, up $10 million from a year earlier.

The company has a 29-per-cent stake in the Ekati mine, which is operated by BHP of Australia and is expected to produce $450 million worth of diamonds a year over the next two decades.

Analysts predict BHP and two other world heavyweights in the industry – De Beers of South Africa and **Rio Tinto** of Britain – will contend for one of the jewels of Canada's diamond-mining crown.

Interest from outside the industry's major players is unlikely, said analyst Rob Klassen of Goepel McDermid Inc.

"The diamond business is a specialized business," Klassen said from Vancouver.

De Beers solidified its presence in Canada's growing diamond-mine operations with a $305-million takeover of **Winspear Diamonds** in late August. The deal gave De Beers control of Winspear's 67-per-cent stake in Snap Lake, N.W.T., which is estimated to contain as much as 41.1 million carats of diamonds. It was De Beers's first diamond mine outside South Africa.

"De Beers has shown they're interested in coming in and sweeping up production to manage the demand and supply relationship," said one analyst in Toronto.

Klassen said De Beers – which has an agreement to buy 35 per cent of Ekati's production – could seek to strengthen its control of the mine.

"The mining end is the higher-margin end of the business," Klassen said. "They would have a bigger exposure to the asset."

BRONFMAN'S NEW ROLE

LYNSEY ADDARIO, AP

Seagram's Edgar Bronfman Jr. (left) announces the creation of Vivendi Universal, a global media and communications company, with Vivendi chairman and CEO Jean-Marie Messier, at a press conference in New York yesterday. The announcement came after European regulators okayed the $30-billion (U.S.) purchase of Seagram by Vivendi.

Gas-price charge dismissed

Canadian Press

SHERBROOKE – Charges of price-maintenance have been dismissed against **Irving Oil** and two local gas-station owners. Quebec Court Judge Danielle Côté ruled at the end of a preliminary hearing that there was not enough evidence for the case to proceed.

The charges alleged that gas-station owners Dominique Lavoie and Jacques Frechette had tried by a threat to reduce prices. But defence counsel Roch Fournier said "the court concluded they did not threaten anyone."

In a telephone interview yesterday, Fournier said Côté's ruling was in line with a unanimous decision by the Ontario Court of Appeal, which held that attempting to be competitive does not in itself amount to a threat.

Lavoie and Frechette chose trial by jury when they pleaded not guilty last December to charges of price-maintenance. The charges were laid against the pair and Irving after an investigation by the federal Competition Bureau.

The charge is different from price fixing, which requires an element of conspiracy and carries tougher penalties upon conviction.

The competition watchdog launched its inquiry after independent station owner Sammy Boulos alleged two years ago that the two Irving retailers had applied pressure to have him keep his prices up.

Fournier said Boulos, who called a local newspaper, the Competition Bureau and the RCMP, "misinterpreted the facts and panicked."

TVA's profit climbs

TVA Group Inc. said yesterday its net earnings climbed 32 per cent to $40.2 million, or $1.31 per share, for the year ended Aug. 27 vs. $30.4 million, or $1.06 per share, a year earlier. "Fiscal 2000 was a pivotal growth year for TVA Group with the acquisition of **Motion International** and **Trustar**, and with our investment in **Netgraphe**," said Daniel Lamarre, president of TVA. "As a result, TVA Group has more than doubled its size in this past year. TVA's objective is now to ensure that our new businesses are properly integrated into the company while we continue to grow." Consolidated revenue totaled $289.3 million in the latest year, a 21-per-cent increase.

Corus earnings include sale

TORONTO – **Corus Entertainment Inc.** has presented a $156-million profit on revenue of $229.2 million at the end of its first year since being spun off from **Shaw Communications**. About $140 million of the net earnings arose from the sale of interests in **Headline Sports Television Network, Liberty Digital Inc.** and **CTV Inc.**

Second Cup CEO returns

TORONTO – Alton McEwen is returning as chief executive officer of **Second Cup Ltd.**, replacing Randy Powell who "has decided to leave to pursue other interests."

GAZETTE, CP

Hooked up to server

MP3

Continued from Page D1

The head office remains in Vegas, while the executive offices are here. Mastronardi, Nathan and the Caisse de Dépôt are the main shareholders of both companies.

The parent company employs 120 people; 78 work in Montreal. The rest work in Chicago, Los Angeles and Philadelphia.

Mastronardi said the CD jukebox was the most advanced technology before the digital jukebox came along. But with CDs, if an operator wanted to update his song selection, he would have to install a new CD in each jukebox.

One potential use is background music for retailers. The firm is testing a system that allows shoppers to pick their favourite songs.

With TouchTune's system, the jukebox operator hooks up to the main server through a phone line and modem and can download new songs from a database of 60,000 to 70,000 titles, as well as graphics like jacket art. The jukeboxes cost $5,995 U.S. Clients can pay up front or lease.

The operator gives TouchTunes a percentage of the revenue from each unit, which, depending on the leasing arrangement, can range from $29 to $69 a week. In the U.S., a client gets to hear three or four songs for $1.

Record companies and performance-rights groups that represent artists receive a fraction of a cent every time a song is played.

The parent company's revenues for the six months ended June 30 were $7.63 million vs. $362,337 in the corresponding period in 1999. The firm posted a net loss of $4.96 million U.S. for the six-month period vs. a loss of $4.55 million U.S. in the year-earlier period.

Mastronardi said he expects the company to become profitable next year.

TouchTune's stock hit a high of close to $4 U.S. in March before tumbling after the technology markets crashed. In recent days, the stock has traded in the $1.38 range.

Mastronardi said the company is looking at other ways in which it can deploy its technology.

One potential use is to deliver background music to retail stores. The company is testing a touch-screen system in a wall at an **Abercrombie & Fitch** store in Missouri that allows shoppers to select their favourite songs from the playlist. "It's a huge success for younger people," he said.

Allegations are denied

JITEC

Continued from Page D1

But Jitec chief executive Benoit Laliberté accuses Black of organizing a scheme to sell short one million Jitec shares and then pressuring Laliberté to sell him shares at a cut-rate price. When rebuffed, Black began making negative statements to brokers and the media about Jitec in the hope of driving down the share price, Laliberté alleges.

Black vehemently denies those allegations.

He has said the only time he sold Jitec short was in a Sept. 25 sale of 25,000 shares that he closed out the next day.

A short sale involves borrowing stock and selling it into the market with the hope of profiting by buying it back at a lower price.

Black also angrily denied he has been contacted by representatives of Jitec to hammer out a settlement.

Jitec lawyer René Branchaud told a Toronto newspaper this week that there had been a meeting with Black, and several of people are involved in settlement efforts.

"I don't know what he's talking about," Black said.

"There's nothing to argue, settle, deal, anything. I have nothing to do with them."

Branchaud did not return telephone messages left at his office yesterday.

In the other release yesterday, Jitec offers little new information about a previously announced letter of intent with an unnamed U.S. telecommunications consortium.

That deal, first announced Sept. 18, is for the sale of four computing centres for $40 million plus potential royalties of $34 million over five years.

The release said a final agreement is to be signed Oct. 31. Jitec spokesman Douglas Chow said the identity of consortium members, delayed by a confidentiality agreement, should be made public in mid-November.

Jitec stock has been on a roller-coaster since it began trading publicly. The stock has been volatile both in day-to-day and intraday trading.

The company had said it would make its release public before trading opened yesterday. Chow said the delay was due to obtaining approvals from Jitec's business partners.

HOROSCOPE

WEDNESDAY, OCTOBER 18, 2000
BY SYDNEY OMARR

Texas Runner: He is reputed to be the fastest man in the world. He is tall, lean, muscular Michael Johnson, a Virgo. He holds Olympic records and, at 34 years old, wants to run even faster. Those interested in astrology point out that as a Virgo his ruling planet is Mercury, the fastest moving planet in the solar system. The question is, Can Michael Johnson run any faster?

♈ **ARIES (March 21-April 19):** You will know what you want as separated from what is needed. Practicality mixes with imagination. You recall that Einstein said, "Imagination over knowledge."

♉ **TAURUS (April 20-May 20):** You may have to repeat some errands. You will be active, dynamic, exude sex appeal. Gemini, Virgo, Sagittarius persons will play stunning roles.

♊ **GEMINI (May 21-June 20):** Financial resources much more stable than anticipated. You locate lost article. Major domestic adjustment proves beneficial. Libra plays role.

♋ **CANCER (June 21-July 22):** Cycle high. Accent personality; take initiative in making important contacts. Family member apologizes for recent misspoken words. Be lenient; accept.

♌ **LEO (July 23-Aug. 22):** Secrets exposed. You receive benefit of added information. Focus on promotion, responsibility, distribution. Utilize showmanship, color-coordination to put across program.

♍ **VIRGO (Aug. 23-Sept. 22):** Puzzle pieces fall into place. What was lost will be recovered. Plan on universal scale. Discard previous notions. You'll be in company of big-leaguers.

♎ **LIBRA (Sept. 23-Oct. 22):** Don't waste time with those who are prisoners of mediocrity. Free yourself to be independent, creative, capable of displaying pioneering spirit. Accelerate pace.

♏ **SCORPIO (Oct. 23-Nov. 21):** You will be going far away from home. Set your mind, emotions on this fact. You need not always be a hometown boy. Cancer, Capricorn figure prominently.

♐ **SAGITTARIUS (Nov. 22-Dec. 21):** Experiment; take cold plunge into future. Focus on accelerated social activities, advertising, publishing. Gemini individual plays remarkable role.

♑ **CAPRICORN (Dec. 22-Jan. 19):** You recall wondering if it is true that opposites attract each other. You will be intrigued by one who ridicules some of your ideas. Scorpio involved.

♒ **AQUARIUS (Jan. 20-Feb. 18):** Individual who shares your hobby wants to be closer than a working relationship. Be careful. This could involve more than you want to handle. Write feelings.

♓ **PISCES (Feb. 19-March 20):** Creative ideas featured in connection with home. Decorating, remodeling will be highlighted. Suddenly you know where the expense can be cut. Taurus, Libra are in picture.

IF OCTOBER 18 IS YOUR BIRTHDAY: You can be generous to a fault. You would rather give than receive. You become a member of charitable-political campaigns. Aries, Libra persons play major roles in your life – could have those letters, initials in names: I and R. November will be exciting, featuring change, travel, variety of sensations. During December, emphasis on possible change of residence, marital status.

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